Small Fresh Fruit and Vegetable Cooperative Operations

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CONTENTS

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HIGHLIGHTS

Small fresh fruit and vegetable marketing cooperatives, though quite diverse in operations, are operating successfully across the country.

A study of 34 associations reveals the range of functions. Some are principally auction markets, while others provide a variety of services and are linked with sophisticated regional marketing cooperatives and sales agencies with nationally known brands.

Generally the fruit cooperatives tend to be more stable and better financed because of the long-term nature of fruit production.

Three sales methods are being used: (1) handled by the cooperative's own staff; (2) contracted to an experienced sales organization; and (3) auctioned to the highest bidder.

Additional services performed include harvesting, grading, packing, cooling, storage, transporting, and providing marketing and production supplies.

The cooperatives range in membership from 30 to 2,000 and in sales from $70,000 to $1,418,000.

Fruit cooperatives handle oranges, grapefruit, apples, apricots, cherries, grapes, peaches, pears, and plums.

Vegetable cooperatives handle tomatoes, peppers, cabbage, cucumbers, sweet corn, sweet potatoes, melons, and greens.

From the experiences of these cooperatives, other growers wishing to form a fresh fruit or vegetable marketing cooperative should give careful attention to these considerations: Program objectives, marketing method, quality standards, grower participation and commitment, management, financial matters, facilities and equipment, and member relations.

24510 Small Fresh Fruit and Vegetable Cooperative Operations

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Small fresh fruit and vegetable marketing cooperatives vary considerably throughout the United States.

The 34 organizations in this report cover cooperatives whose annual volume is $1 million or less (although a few associations exceeded $1 million before the survey was completed). They range in function from those only selling members' produce by auction to those offering a variety of services. These include harvesting, grading, packing, supply purchasing, and marketing produce by consignment through an effective sales agency.

Fruit cooperatives tend to provide more packing facilities, while vegetable cooperatives are more likely to offer supply services. Twelve of 13 fruit cooperatives have packing facilities, but only 12 of 21 vegetable cooperatives pack produce. Seventeen of 21 vegetable cooperatives offer supply services, and only 9 of 13 fruit cooperatives offer supply services.

All of the cooperatives, however, are realizing varying degrees of success. Their differences apparently stem from the needs of the membership and the area of operation. They are effective, also, because of member commitment and the necessary management skill to handle the operation.

Generally, a fruit cooperative is more difficult to organize than is a vegetable cooperative because of the nature of production. Fruit trees require several years to produce a sizable crop, while vegetable crops are harvested annually. Once production is underway, however, a fruit cooperative tends to be more stable because grower-members cannot alter their fruit production in the short run. This fruit crop stability generates a strong commitment of growers, which generally results in the fruit cooperative being in an overall better financial position than a vegetable cooperative.

Twenty-five associations provided nearly complete financial data for the 1974 season.

Ratio of equity capital to total assets averaged 69 percent for 3 citrus fruit cooperatives, 51 percent for 7 deciduous fruit cooperatives, and 50 percent for 15 vegetable cooperatives (table 1).

Rate of return, derived by the relationship of equity capital to net income, averaged 13 percent for citrus cooperatives, 21 percent for deciduous fruit cooperatives, and 10 percent for vegetable cooperatives.

Marketing cooperatives supplying grading and packing services generally produce higher net margins than those not offering the services. Seventeen cooperatives equipped with grading and packing facilities average $20,000 in net margin, compared with a $9,000 average for eight cooperatives without the facilities.

Table 1—Average financial data on 25 fresh fruit and vegetable cooperatives, 1974

Type of cooperative	Coop-eratives	Average assets	Average equity capital	Average volume of sales	Average net income
	Number	*Dollars*	*Dollars*	*Dollars*	*Dollars*
Citrus fruit	3	250,000	173,000	380,000	23,000
Deciduous fruit	7	316,000	161,000	588,000	34,000
Vegetable	15	165,000	83,000	519,000	8,000

At left is the washing, waxing, grading, and packaging line of a vegetable cooperative that handles cucumbers, sweetpotatoes, peppers, and cabbage.

ORGANIZATIONAL STRUCTURE

Beyond the centralized nature of these small fresh fruit and vegetable cooperatives, variations are revealed in members served, membership requirements, and management and employee depth. Differences generally originated from the desires of grower-members and economic conditions at the time of formation.

Membership

Membership ranges from 30 to 2,000, with an average of 249. Since organization, combined membership has doubled. Twenty-one vegetable associations average 354 members; 13 fruit associations, 79 members. Associations with the largest membership cater to growers with limited volumes of produce grown on relatively small acreages.

The cooperatives are centralized in that individuals, partnerships, corporations, and associations may hold direct membership.

Four citrus cooperatives require written application for membership, and approval by a majority vote of the board. No entrance, organization, or membership fee is charged. However, the new member is required to file an agreement to abide by all bylaws, rules, and regulations, including packing and marketing his citrus fruit through the cooperative.

Membership in nine cooperatives handling deciduous fruit, also subject to board approval, requires signing an agreement accepting the bylaws and other rules. Eight of these cooperatives require new members to have some type of financial interest in the cooperative. Five charge a nominal membership fee, while three others require an investment of one share of common stock. Five also require members to sign a marketing agreement.

Bylaw and regulation compliance, as a condition of membership, for the vegetable cooperatives is similar to that for fruit cooperatives. Sixteen of the 21 vegetable cooperatives assess a nominal entrance fee or small annual charge. Four of the remaining five require the purchase of one share of common stock.

Membership in all these fruit and vegetable cooperatives is regarded as being open, so long as the prospective member produces a crop handled by the cooperative.

One-member, one-vote is the general principle for exercising member control, with a few exceptions. Three citrus fruit cooper-

atives allow an additional vote for each $1 of revolving fund credits; a fourth cooperative allows an additional vote for each $100 worth of revolving fund credit up to a maximum of 101 votes. One cooperative handling deciduous fruit also allows an additional vote for each $100 worth of revolving fund credit.

Management

Management of these cooperatives ranges from part-time help to a full complement of management and board, with director committees.

Twenty-one of the associations recognize the traditional roles of management, with the board primarily concerned with broad policy considerations and the manager with implementing the policies through day-to-day operational decisions.

Directors in 13 other cooperatives look to their managers for additional assistance. This includes making policy recommendations, jointly working out policy decisions, and in several instances, exercising all control of policies and operations with the precautionary stipulation of keeping directors informed.

The number of directors ranges from 5 to 20, with 74 percent of the boards comprising 7 or 9 directors. Terms range from 1 to 4 years, but 53 percent elect directors for 3-year terms (after original nominations are staggered on a 1-2-3 basis). In seven of eight California cooperatives, directors are elected annually with no restriction on number of terms.

The board elects officers at its first meeting after annual meeting. The elected president and vice president must be directors, but in most cases the secretary and treasurer need not be.

The board of directors has authority to appoint committees for studying and recommending action on various policies and operations. But 18 of the 34 cooperatives operate without committees. Seven cooperatives operate with 1 committee, 4 with 2 committees, 3 with 3 committees, 1 with 7 committees, and 1 with 11 committees.

Of those cooperatives using committees, four have an annual meeting committee and three have an executive committee. Other committees frequently used are for building, finance, marketing, and public relations.

Managers in 29 of the 34 cooperatives are hired full-time, year-round. The manager role depends on the services offered. For a fruit or vegetable cooperative having packing facilities, the

manager spends considerable time supervising grading and packing. Marketing services are often delegated by contract to large cooperative marketing organizations, joint sales agencies, and other marketing firms or individuals. Managers of cooperatives whose function is strictly marketing have primary responsibility in personally handling member sales in the most economical and effective way.

Employees

Practically all combinations of full-time and part-time employees are used.

Twelve of 13 fruit cooperatives have full-time employees, ranging from 2 to 8, with part-time workers ranging from 10 to 140 at the peak of the marketing season. Four of the 21 vegetable cooperatives operate without full-time employees. The other 17 hire 1 to 5 persons on a permanent basis. Peak employment of part-time workers among vegetable cooperatives ranges from 2 to 100 persons.

Cooperatives having packing facilities, as would be expected, hire a sizable number of part-time workers; while those offering only marketing services operate with limited numbers.

OPERATIONS

The motivating force of farmers to form these small fresh fruit and vegetable marketing cooperatives was to improve their economic condition and establish a reliable market for their produce. Other important factors were the need for centralized packing and grading of produce and the opportunity to purchase dependable production and marketing supplies at a reasonable price.

Grower-members feel strongly that they should market produce through a sound cooperative rather than through a number of independent packing sheds, which they consider less reliable. Twenty-six of the 34 cooperatives are situated in areas having other market outlets that compete for grower and buyer patronage. Competition includes large brokers, shippers, packers, and in some instances other marketing cooperatives.

Policy Considerations

As an overall policy, these cooperatives seek to obtain the best possible price for members' produce and to establish the relationship between quality and price. Associated with this price-for-quality approach is brand merchandising.

The interior view is of a deciduous fruit cooperative. The citrus fruit cooperative, which harvests, grades, and packs for members, is one of 7,500 member-cooperative that market citrus through Sunkist Growers, Inc.

Some cooperatives also stress efficient grading and packing and providing production and marketing supplies at advantageous costs.

Thirteen fruit cooperatives stress brand marketing. Four citrus cooperatives use the Sunkist brand. Nine deciduous fruit cooperatives either use their own brand and/or market under their sales organization brand, such as Blue Anchor or Blue Goose.

Twelve of the 21 vegetable cooperatives use their brand on part or all of produce marketed. The other nine have no brands at all.

Quality Control

Quality control varies from rigid inspection on citrus fruit to a rather loose-knit inspection procedure for vegetable auction markets.

Four citrus fruit cooperatives meet regulated fruit inspection control by Sunkist's inspectors and county and State requirements.

Deciduous fruit associations conduct careful inspection, under the direction of the manager, to conform with Government grade standards.

Fifteen of the 21 vegetable associations rely on inspection under management supervision to meet Federal and State grade regulations. In the remaining auction markets, growers are responsible for the quality of their produce. Growers delivering to auction markets are expected to pack in a manner that surface produce is a reasonable representation of the entire contents of the pack. Any required adjustments are guaranteed by the cooperative and handled by a State inspector to meet the standard.

Commodities Handled

Fruit cooperatives tend to handle fewer commodities than do vegetable cooperatives; however, the number varies considerably. For example:

—Six fruit and three vegetable cooperatives handle only one commodity;

—two fruit and one vegetable cooperatives handle two commodities;

—one fruit and seven vegetable cooperatives handle three commodities;

—two fruit cooperatives handle four commodities; and

—two fruit and 10 vegetable cooperatives handle five or more commodities.

The four citrus fruit cooperatives concentrate on Navel and Valencia oranges, but two of them also handle grapefruit. The deciduous fruit cooperatives handle apples, apricots, cherries, grapes, peaches, pears, plums, and others.

Some of the more important products handled by vegetable cooperatives are tomatoes, peppers, cabbage, cucumbers, sweet corn, sweet potatoes, melons, and greens.

Sales Volume

Volume in 1974 for the 34 fruit and vegetable cooperatives ranged from $70,000 to $1,418,000, but for two-thirds of them volume was less than $600,000 (table 2). The cooperatives rely heavily on members for volume, with only six cooperatives reporting more than 10 percent nonmember business and only three cooperatives more than 20 percent.

Cooperatives with relatively small sales volume are especially vulnerable in their struggle to meet operating costs and remain solvent. Generally, they rely on grading and packing services to their members for additional income.

Cooperatives with grading and packing facilities generally handle a smaller volume of produce than those without such a service. For example, in 1974, the average annual sales volume of the cooperatives with grading and packing facilities was $462,000, compared with $603,000 for those not providing such facilities.

Table 2—Value of gross sales of fruit and vegetable cooperatives, 1974

Gross marketing	Type of cooperative		Total
	Fruit	Vegetable	
	Number	*Number*	*Number*
Less than $300,000	3	7	10
$300,000 to $599,999	6	7	13
$600,000 to $899,999	4	5	9
$900,000 and more	0	2	2
Total	13	21	34

Marketing

Sales arrangements and type of product largely determine the markets served by the small fruit and vegetable cooperatives.

Four citrus fruit cooperatives have links with major domestic and overseas markets through Sunkist. These markets include Los Angeles, San Francisco, New York, Boston, Philadelphia, Chicago, and Detroit; Hong Kong and Europe. Sunkist marketing provides these cooperatives: (1) equitable sales and shipping opportunity; (2) the right to decline any offer from the marketing organization; and (3) assurance that they comply with industrywide regulations of shipments.

Nine deciduous fruit cooperatives, marketing under their own sales managers or agencies, such as Blue Anchor and Blue Goose, point sales to larger cities in the East and Midwest, but coverage is relatively good throughout the Nation.

Most vegetable cooperatives, using their own sales managers, market along the eastern seaboard and the Midwest. Six of the cooperatives are auction markets that sell to brokers and roadside markets. While the roadside operators concentrate on local sales, the brokers truck produce to eastern markets.

Market information. Managers rely most on their personal contacts within the trade to keep abreast of market conditions. Daily phone calls are made to brokers, major buyers, and to important producing areas. Buyers are supplied information on crop conditions, shortages, and availability of produce. Other sources include USDA's market news service, State agencies, trade papers, radio, and sales agents' reports.

Most of the cooperatives give members market information, either by phone, daily or weekly bulletins, or manager visit.

Marketing agreements. Member commitment is either a condition of membership with provisions spelled out in the bylaws or through a separate written contract. Two-thirds of the fruit associations and a third of the vegetable associations have separate formal marketing agreements.

Commitment is a condition of membership for the four citrus fruit associations. Additionally, these cooperatives have a marketing agreement with Sunkist Growers, Inc.

Four of nine deciduous fruit cooperatives have contractual arrangements with members to grade, pack, and sell all their fruit. A fifth association has a contract with members to grade and sell at least one of the crops handled. Two of the agreements are for 1

Some vegetable growers begin joint action by establishing a vegetable auction market.

year; the other three are self-renewing, with a period specified each year in which either party can withdraw. The four other fruit cooperatives have no separate marketing agreements, but rely on members' marketing commitment contained in the associations' bylaws.

Seven of 21 vegetable marketing cooperatives have separate written marketing contracts with members. Five are for a year or a season; one is for 10 years and another on a continuing basis, both with self-renewing options.

Contracts generally cover major vegetables handled by the cooperative. In addition, these cooperatives usually accept other vegetables, depending on satisfactory arrangements made with management or the board.

In the event of grower nonperformance, the cooperative may take such legal steps as stated in the marketing contract, which may include assessment of liquidated damages, court injunctions, and directives for specific performance.

Sales method. Direct selling is preferred. Twenty-five of the 34 cooperatives sell from 40 to 100 percent of their produce by direct sales. This represents 78 percent of total volume marketed. Twenty-three associations average 51 percent of direct sales to corporate chains. Twenty-one cooperatives sell an average of 49 percent of their produce direct to wholesalers; three average 15 percent to institutions and other buyers; and two sell 100 percent to processors.

Sixteen cooperatives sell 38 percent of their produce through brokers, with individual cooperatives selling anywhere from 5 to 100 percent in this manner.

Eleven cooperatives consign an average of 21 percent of their produce marketed, within a range of 2 to 50 percent.

Six cooperatives sell all of their produce through their auction markets to the highest bidder.

Advertising. Eighty-eight percent of the cooperatives use advertising. Product availability, quality, and brands are emphasized in trade papers, local newspapers, radio, television, the industry "Red Book," and other community programs. In some instances, a cooperative pays a small per bushel fee to a State commodity commission for promoting a specific item such as apples or sweet potatoes. Cooperatives tied in with large sales organizations rely on them for product promotion.

Services

Major services provided include harvesting, washing, grading, packing, cooling, storing, transportation, and securing production and marketing supplies.

Four citrus fruit cooperatives, one deciduous fruit, and one vegetable cooperative provide harvesting service, which includes picking and hauling in field boxes to the cooperative. Ninety-two percent of the fruit marketing and 57 percent of the vegetable marketing cooperatives perform grading, packing, washing, and waxing services. All of the cooperatives, except those operating auctions, use refrigeration or icing to maintain the necessary temperature to keep produce in good condition. Two cooperatives provide hydrocooling, a technique for quickly removing field heat from perishable commodities such as peaches and sweet corn. Thirty-one cooperatives have storage facilities. Of the three that had no storage, two are cooperative auctions and the other handles produce for a processor.

Twenty-six cooperatives handle supplies, with annual volume ranging from $1,000 to $622,000 and averaging $152,000. Production supplies include plants, seed, fertilizer, pesticides, and irrigation material. Market supplies consist of packages and containers of various types and sizes.

Cooperatives either own, lease, or hire trucks to transport produce to market, or make arrangements through their sales agents or buyers. Some California cooperatives also ship produce by rail.

Charges for services. Vegetable cooperative members generally prefer selling to their cooperative by individual account, while fruit cooperative members prefer pooling. Regardless of method, most cooperatives cover operational costs through a commission charge ranging from 3 to 18 percent, but averaging about 8 percent of member-growers' gross sales volume. Cooperatives operating on a fixed charge per package assess members 8 to 16 cents per unit, regardless of volume. The considerable range in charges is due mostly to variations in the number and types of services provided. For example, produce sold by a cooperative on an auction block has little cost relationship to the marketing costs of a sophisticated sales agency.

Cooperatives that sell on individual account preserve the identity of growers' produce until it is sold. Acting in this manner as the growers' sales agent, the cooperative deducts a selling

charge and returns the net to the grower with a copy of the sales invoice. This method is preferred by about three-fourths (16 out of 21) of the vegetable cooperatives.

Pooling involves commingling of produce by commodity and quality standard. Sales returns and operating expenses are combined and net returns are prorated among members in proportion to their volume transacted within a specified period. Fruit marketing cooperatives prefer pooling. Nine of 13 use pooling, two sell on individual account, and two use both methods. Only four vegetable cooperatives use pooling. One uses a combination plan.

Facilities and Equipment

Twenty-five cooperatives have their own packing sheds. Four of these have two or more packing facilities. In general, the cooperative's office and cold storage room is within the overall packinghouse facility. Cooperatives handling sizable quantities of production and market supplies usually have a separate warehouse for storage. Auction type cooperative facilities usually include a business office, a few brokers' offices for large buyers, an auction shed, and several loading platforms.

Cooperatives involved in central packing have one or more grading and packing lines based on volume and variety of produce handled. Some major equipment used includes hydrocoolers, forklifts, and refrigerated trucks.

Financing

Twelve of the marketing cooperatives are organized with capital stock; the remaining 22 are nonstock cooperatives. The stock cooperatives include four deciduous fruit and eight vegetable cooperatives. The nonstock cooperatives are 4 citrus fruit, 5 deciduous fruit, and 13 vegetable associations.

Equity capital through retained savings is the most important source of capital for 25 of the 34 cooperatives. Six cooperatives have the largest amount of equity capital in capital stock.

Retained savings are eventually allocated to grower-members on the basis of patronage for both stock and nonstock cooperatives. Four citrus fruit cooperatives, four deciduous fruit coop-

These vegetable cooperatives handle several varieties and provide a number of marketing and purchasing services.

eratives, and five vegetable cooperatives are using revolving fund financing.

Equity capital for the 34 cooperatives averaged $98,000, although two-thirds of the associations' equity capital was less than that amount (table 3).

Table 3—Value of equity capital of fruit and vegetable cooperatives, 1974

Equity capital	Type of cooperative		Total
	Fruit	Vegetable	
	Number	*Number*	*Number*
Less than $50,000	2	9	11
$50,000 to $99,999	3	8	11
$100,000 to $149,999	2	2	4
$150,000 to $199,999	2	1	3
$200,000 and over	4	1	5
Total	13	21	34

Equity capital averaged $199,000 for 4 citrus fruit cooperatives, $130,000 for 9 deciduous fruit cooperatives, and $65,000 for 21 vegetable cooperatives. Three cooperatives had no equity capital.

Cooperatives with packing facilities have an average equity capital of $106,000, compared with $79,000 for cooperatives without these facilities.

When the cooperatives need credit sources for operating funds or expansion, they borrow from individuals, commercial banks, banks for cooperatives, and other lending agencies.

Operating Problems

Twenty-four cooperatives reported one or more major operating problems, covering seven different areas (table 4). Labor and volume of produce are the most troublesome.

Table 4—Operating problems of fruit and vegetable cooperatives by commodity groups, 1975

Operating problems	Type of cooperative		Total
	Fruit	Vegetable	
	Number	*Number*	*Number*
Labor problems	7	4	11
Insufficient volume	3	4	7
Uneven flow of produce	1	2	3
Machinery breakdown and repair cost	2	1	3
Insufficient operating capital	0	3	3
Large variation in quality	1	0	1
Poor participation of members	0	1	1
Total	14	15	29

The 11 cooperatives reporting labor problems cited difficulty in getting part-time labor, deterioration in quality of work, and the relatively large turnover among the work force.

The seven cooperatives mentioning volume said their serious problem was related to a gradual reduction in volume of produce handled.

WHY FOUR COOPERATIVES FAILED

Four cooperatives closed operations during 1970 to 1974.

A review of one of these cooperatives describes its operations and the basic problems that caused the closure. Major problems that brought on the closures of the other three cooperatives are summarized.

Gloucester County Agricultural Cooperative Association at Glassboro, N.J., was organized and incorporated in 1933 to hydrocool, store, and market fresh fruits and vegetables for its members, as well as furnish them with production and marketing supplies. Membership was open to persons producing agricultural products who paid an annual fee of $1 and patronized the association.

Each member had one vote.

The cooperative had a marketing contract with members for its direct sales program on peaches until the end of the 1966-

67 season. After that time, the cooperative sold all its produce by auction.

Financing by the cooperative was through equity certificates, capital surplus, commercial banks, and a bank for cooperatives.

The cooperative had a nine-member board of directors elected on a staggered basis for a 3-year term. Director committees dealt with supplies, cold storage, auction, and finance.

Full-time employees included a general manager, secretary, two salesmen, engineers, warehousemen, and clerks. The cooperative also hired a number of seasonal or part-time employees for work in supply, cold storage, and auction programs.

Quality control of produce for auction sales was performed basically by growers on their farms. However, availability of a Federal inspector at the auction helped farmers realize the importance of quality in relation to price.

The cooperative experimented unsuccessfully with a brand name for its corn sales. After that, no brand promotion was used.

Services included selling members' produce through the auction and operating a direct sales program for a limited time, hydrocooling peaches and miscellaneous vegetables, storing apples, peaches, and turnips, and handling production and marketing supplies for its members.

Major buildings included an office, supply building, and auction, storage, and freezing facilities.

Produce purchased by brokers at the auction was shipped principally to New York and Philadelphia, although some purchases went as far as Canada. Purchases by roadside market operators were largely confined to the local area.

Auction sales averaged $900,000 a season, but total volume of sales declined when the direct sales program, averaging $300,000 a year, was discontinued in 1968.

Farm supply sales were also an important activity of the association, contributing on the average about one-third of total revenues.

The cooperative was faced with a business too farflung for efficient supervision of a general manager. Recognizing this problem, the manager recommended to the board of directors a plan for the cooperative to purchase a good site with sufficient acreage, plus a building program assuring a centralized operation.

The land purchase was approved and completed, but later

the membership balked on construction cost for the operation. As a result, the cooperative's competent manager resigned and the program was never completed. From that time, the cooperative's operation gradually went downhill. Management turnover became standard practice as new managers proved either incompetent or failed to receive the necessary membership support. Finally, in 1974, the cooperative closed after board, members, and management had failed to reconcile their differences.

Atlantic County Market Growers Association Cooperative, Inc., Egg Harbor City, N.J., was organized and incorporated in 1936 to market fresh vegetables, potatoes, and berries for local grower members and handle a limited quantity of marketing supplies.

Closure in 1970 was attributed to the lack of commitment by members, which resulted in a deterioration of support. Most members "used" the association when the price was right, but only about five members fully supported the cooperative. It was also difficult to persuade growers to pack produce to buyers' specifications.

Erosion in members' participation and support gradually caused a serious drop in the cooperative's sales volume, reducing marketing effectiveness and needed operating revenue.

Hanover County Vegetable Growers Association, Inc., Richmond, Va., was organized and incorporated in 1957 to grade, pack, and market its 168 members' tomatoes, greens, and melons.

The cooperative was never able to obtain adequate member support and operated at a gross annual sales volume ranging from \$100,000 to \$200,000, inadequate for success. Closure in 1973 resulted from a combination of factors, including poor location, reduced volume, a decline in active membership, limited grower commitment, and a decline in vegetable farming.

Trent Farms, Inc., New Bern, N.C., was organized and incorporated in 1967 to help 125 small growers market their strawberries and cucumbers and furnish them with farm supplies.

Among factors contributing to its downfall and closure in 1973 were a close-out of grants, members' inexperience in growing vegetables and berries, lack of volume, and excess hired personnel. Other contributing and related factors were:

—A lack of understanding on the part of the board of directors, employees, and members concerning the philosophy and practices of a cooperative-type organization;

—interstaff rivalry and friction resulting in a lack of coordi-

nation of effort, staff efficiency, and development of esprit de corps; and

—member-growers patronizing their cooperative only if the price they received for their produce marketed through the cooperative was better than they could get on their own.

ORGANIZATION AND OPERATIONS GUIDELINES

At the very beginning, growers interested in forming a fresh fruit or vegetable marketing cooperative should seek the advice of someone who is familiar with the cooperative-forming process.

That person not only will be a good source of information to this key group of growers but also will be invaluable to answer questions at a later general meeting of potential members.

If indications are that a sizable number of potential members exists, then a study committee should be formed to be responsible for a feasibility study to appraise the chances for successful operation.

One of the most important considerations is to determine the correct size of the operation. What volume of produce would be committed? What types of services do members want? What facilities will be needed?

Often, enthusiasm in these early stages of organizing will cause growers to overstate their commitment on volume of crops. Also, there is a tendency to minimize marketing costs. The need is critical to get an objective evaluation of volume and cost factors.

Findings of the feasibility study should be presented to all prospective members. If they decide to establish a marketing cooperative, they should ask the current committee or appoint a new committee to proceed with organization.

The organizing committee should retain an attorney familiar with the State's cooperative law to help draw up organization legal papers. These include articles of incorporation, bylaws, and, if decided upon, a marketing agreement. These documents should be broad enough to provide operational flexibility.

Special attention should be given to the following factors:

PROGRAM OBJECTIVES—What priority will be given to an effective sales program, good grading and packing facilities, and storage and supply services?

MARKETING METHOD—Should the cooperative have its own sales program or delegate sales responsibility to an experienced sales organization? What marketing method best fits the needs of the cooperative?

The type of sales program selected is generally determined by the planned services to members.

Most small cooperatives cannot afford to hire more than one individual in a management role. So if the manager is responsible for supervising central packing and grading operations and handling needed supplies, then he may not be able to also conduct a good sales program. Nevertheless, three options are available:

First is the sales method in which the manager is responsible for selling the crop at the best price consistent with market conditions. Sales can be made direct to chainstore buyers and wholesalers, with the balance going to brokers, and to other buyers by consignment.

A second highly successful method is to delegate produce marketing to an experienced sales organization. Such an organization offers these benefits: Lower promotional costs; better market distribution; more orderly marketing of total production; higher total sales value for the produce; and improved standardization of product.

The third method is through an auction. Buyers are usually brokers and roadside market operators. Success of an auction depends on a sufficient number of buyers and sellers to enable the supply-demand function to develop a satisfactory price level. Buyers require a sufficient volume and quality of produce to warrant continued participation. Sellers need an adequate number of buyers to bid the price consistent with the quality of produce auctioned.

QUALITY STANDARDS—Can uniform standards be adopted for all produce?

A successful fruit and vegetable marketing cooperative must be able to assure customers of uniform quality produce: To fill requirements of different classes of buyers, the cooperative must use objective grading standards and controls.

Good quality control is the key to a reliable cooperative brand. Basically, the brand is a symbol of the packaged produce and, as such, is as good as the quality it represents.

Cooperatives associated with large sales organizations generally have the use and advantage of a built-in nationwide brand:

For example, such brands as Sunkist, Blue Anchor, and Blue Goose bring growers top price for produce and assure buyers a quality product.

Cooperatives that handle grading and packing operations are in a good position to control quality. This can include Federal-State inspection, cooperative inspection, or a combination of both. This grading and packing service also can bring in income to sustain overall operations.

A vegetable cooperative should consider a quality control program that begins at the farm with the use of good seed. Standards should be established to assure comparable cultural practices and orderly harvesting procedures.

Central packing, again, can attract Federal-State inspectors to assure compliance with grade standards. Produce is graded for quality either on official USDA grade standards, or on specifications of the cooperative.

Two or three grades are usually enough to meet trading demands for fresh fruits and vegetables. Most USDA grades are designated U.S. Fancy, U.S. No. 1, and U.S. No. 2.

GROWER PARTICIPATION AND COMMITMENT—What will be the membership requirements and on what basis should they vote? Should marketing contracts be required?

In the final analysis, it is not the number of members that determine the success of the marketing cooperative, but the members' committed volume of produce. A marketing contract between the cooperative and its members helps assure that committed volume. The cooperative can then plan sales operations more efficiently and maximize returns to growers. The agreement gives management an opportunity to more accurately project financing requirements. And the contract can be used to specify certain rights, duties, and obligations of the two parties to the agreement.

The marketing contract is an integrating device, transferring some decisionmaking from the individual to the organization. But in relinquishing some individual control, the grower helps the cooperative coordinate marketing activities for all members more effectively.

The marketing contract establishes a relationship between cooperative and member that recognizes two basic problems a cooperative faces: sufficient volume and adequate equity capital.

Most equity capital for small cooperatives is obtained through retained savings. When the need arises for improvements,

expansion, or additional working capital, it is important to leave enough equity capital to meet the loan requirements of commercial banks, banks for cooperatives, or other lending agencies.

Duration of the contract, termination features, and degree of permanency should be clearly understood: A key part should be the specifications for standard packaging and quality control.

MANAGEMENT—Who will furnish the leadership?

A manager's emphasis on operating a cooperative depends on services offered. An effective manager should have a marketing program that includes advance planning, good estimates of the volume of produce to be marketed, and adequate marketing knowledge for handling sales.

An important characteristic of the competent manager is his ability to maintain good working relations with members. This good relationship helps coordinate operations.

The manager should develop a staffing pattern appropriate to the scope and size of the cooperative. Year-round employees should be kept to a minimum by using part-time employment during seasonal peaks.

In most situations, a small cooperative cannot afford to pay a high salary to a well qualified salesman. However, salary arrangements for a good salesman might be worked out in combining a fixed basic salary with a percentage commission on sales or paying on a straight sales commission.

FINANCIAL MATTERS—Can the cost of facilities and potential sales be reasonably approximated? Will operating and overhead costs be met by initial capital, a percent of sales, a per-unit charge, or a combination of these? What will be the effect of volume on costs?

Growers can get a better understanding of how their proposed fresh fruit or vegetable marketing cooperative should operate by reviewing the financial records of an existing cooperative that best fits their needs. Financial data, including a balance sheet and operating statement, on both a fresh fruit and a fresh vegetable marketing cooperative are shown in appendixes A and B.

To guide the activities of a cooperative, the board of directors, as well as employed management, should set up controls to check how well policies are being carried out.

The preparation of operating and financial budgets forces a board of directors to plan. Such budget preparations provide a realistic base for a board to clearly see its policymaking

responsibilities and hired management its operating and policy implementation duties.

All members should receive a copy of the cooperative's annual report prepared in sufficient detail to provide an accurate appraisal of operations. Supplementary reports could be used to disseminate financial information to members. This financial information should be in an easy-to-understand format. Members' understanding can be improved by using charts, graphs, and photographs.

FACILITIES AND EQUIPMENT—What transportation program is needed? Should the cooperative own or rent facilities and equipment? What supplies should be offered?

Transportation rates and services are important considerations for determining how, when, and where produce is marketed. Cooperative management should appraise the feasibility of owning or leasing refrigerated trucks for shipping members' produce to nearby markets. Per-ton-mile rates decrease as distance increases. However, truck rates are most competitive with rail rates within a 200- to 300-mile radius. Another alternative is to use transportation equipment of other cooperatives, perhaps in a backhaul arrangement.

Because of the high perishability of most fresh produce, serious consideration must be given to the different techniques of cooling, such as refrigeration, icing, hydrocooling, vacuum cooling, or a combination of these methods.

Storage requirements vary considerably, depending on the types of produce handled. Normally, sizable storage facilities should be considered for the more hardy crops such as apples and sweet potatoes.

A good supply program can bring about savings through relatively large purchases. Most cooperatives have found that charging members competitive local prices for supplies is a sound practice. At the end of the operating season, accumulated savings may then be returned as patronage dividends. Purchases could include farm supplies such as seed, fertilizer, pesticides, cartons, and other specialty materials.

One type of service a cooperative might offer is connected with handling fertilizer. The cooperative could recommend the correct application of fertilizer, check on crop growth, and take soil samples.

MEMBER RELATIONS—How can members be kept informed of cooperative activities and how can the cooperative keep in touch with member needs?

Techniques aimed at encouraging active member participation, such as committee assignments, contribute to improved relations between the cooperative and its members. Membership meetings and personal contacts, if well planned, are effective methods in member relations. The cooperative should consider using a newsletter. An informal newsletter is a useful device for giving members a more complete understanding of the cooperative. It is a good supplement to personal contacts. Good relations, in the final analysis, depend on the cooperative's ability to achieve results that merit support.

APPENDIX A

Financial data of a fresh fruit cooperative, June 1974

BALANCE SHEET

Assets	*Dollars*
Current	
Cash on hand	2,000
Cash in bank	10,000
Accounts receivable	70,000
Merchandise inventory	78,000
Total current assets	160,000
Fixed	
Land and improvements	8,000
Buildings	115,000
Machinery and equipment	87,000
Total fixed assets (cost)	210,000
Less: Accumulated depreciation	(30,000)
Net fixed assets	180,000
TOTAL ASSETS	340,000
Liabilities	
Current	
Loan payable (bank)	9,000
Notes payable—short term	10,000
Accounts payable	98,000
Liability for unsettled claims	5,000
Accrued wages	9,000
Accrued taxes	4,000
Patronage refunds payable	12,000
Total current	147,000
Long term	
Mortgage loan payable (bank)	15,000
Notes payable—growers	1,000
Total long term	16,000
TOTAL LIABILITIES	163,000

Shareholders and Patron Equities

Capital stock	
Preferred stock	77,000
Common stock	5,000
Total capital stock	82,000
Patrons' reserves	
Letters of allocation	50,000
Reserve for improvements	30,000
Total patrons' reserves	80,000
Contingent reserve	15,000
Total shareholders' and patrons' equities	177,000
TOTAL LIABILITIES AND SHAREHOLDERS' AND PATRONS' EQUITIES	340,000

INCOME AND EXPENSES

Income

Fruit sold	490,000
Merchandise and supplies sold	410,000
Total sales	900,000
Gross margins	70,000
Storage income	15,000
Packing income	14,000
Hauling income	9,000
Commissions	28,000
Purchase discount	3,000
Total income	139,000

Expenses

Management salaries	27,000
Office salaries and other labor	22,000
Depreciation	9,000
Heat, light, power, and telephone	10,000
Hauling	8,000
Insurance and taxes	16,000
Discount on sales	4,000
Repairs and maintenance	4,000
Miscellaneous	3,000
Total expenses	103,000
NET INCOME	36,000

APPENDIX B

Financial data of a fresh vegetable cooperative, December 1974

BALANCE SHEET

Assets	*Dollars*
Current	
Cash	30,000
Accounts receivable from growers and produce buyers	18,000
Merchandise inventory	22,000
Advancements to suppliers	20,000
Total current assets	90,000
Fixed	
Land	10,000
Buildings	90,000
Equipment	40,000
Total fixed assets (cost)	140,000
Less: Accumulated depreciation	(60,000)
Net fixed assets	80,000
TOTAL ASSETS	170,000
Liabilities	
Amounts payable—accrued bonuses and other accrued liabilities	20,000
Members' capital accounts	135,000
Contingent reserve	15,000
TOTAL LIABILITIES	170,000

STATEMENT OF OPERATIONS

		Dollars	*Percent*
Operating revenues			
Farm supplies		280,000	
Farm products marketed		450,000	
Total sales		730,000	100.0
Operating payments			
Cost of supply purchases	250,000		
Cost of produce marketed	415,000	665,000	91.1
Gross margin		65,000	8.9
Cold storage revenue		20,000	2.7
Packinghouse revenue, net of expenses		15,000	2.1
Combined gross margin and proceeds		100,000	13.7
Operating and general expenses		80,000	10.7
Total net proceeds		20,000	3.0
Net margins payable to patrons currently		5,000	
Net margins retained in capital accounts		15,000	
Total net margins		20,000	

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For copies, write Farmer Cooperative Service, U.S. Department of Agriculture, Washington, D.C. 20250.

FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE

Farmer Cooperative Service provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Service (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Service publishes research and educational materials and issues *Farmer Cooperatives*. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.